



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

COMPETITION: THE SAFEGUARD AND PROMOTER OF GENERAL WELFARE

BY GEORGE F. CANFIELD,
Professor of Law, Columbia University.

Competition in economic discussion means competition in trade. To this I shall confine my attention, although the law of competition applies generally to all human activities, just as the law of gravitation governs universally the physical world. When two or more persons are engaged in the same kind of business of production or trade, or in different kinds of business, which, although different, are mutually competitive, we have actual competition between them, each competitor measuring his strength against the other. When one person is engaged in any particular business, but there is an opportunity for another one or more to engage in it, we have potential competition. The effect of potential competition is substantially the same as that of actual competition. In each case the competitor, or the sole trader who is subject to potential competition, must exert himself to maintain himself in the competitive struggle. This in itself is an important advantage, for many men, if not most men, contrary to the belief of our socialistic friends, exert themselves only when they are obliged to do so. But there is a further advantage, for under the stimulus of the rivalry the competitor or sole trader will normally do more than merely try to maintain himself. He will exert himself to accumulate a surplus over and above what is necessary for his maintenance and support. He will exert himself to achieve a positive success and to excel his rival. The effect, therefore, of competition is to quicken the energy, to develop the powers and to render more efficient the action of each party to the competitive struggle, and, so far as it has this effect, it is wholly and unqualifiedly beneficial. To it the world is indebted for the inventions, improved processes of manufacture, improved organization of industry and trade and the great energy with which industry and trade have been prosecuted—all of which has rendered possible the enormous increase in the wealth of the world during

the last hundred years. The result of this vast increase of wealth is that, notwithstanding the enormous increase in population during this time, the general physical and material comfort of the people has been increased, and mankind, collectively and individually, possesses and enjoys to-day more of the good things of life than was ever possessed and enjoyed before in the history of the world. This may be said, although unfortunately it is also true that there is still a vast mass of poverty, suffering and crime which afflicts mankind. Religion and modern philanthropy are dealing with these evils sympathetically and hopefully, and with increasing efficiency as philanthropy becomes more practical and business administration becomes more philanthropical, and as there is increasing co-operation between philanthropists and men of affairs.

Competition is also beneficial, in so far as the object of it is promotive of, or at least consistent with, the public welfare. The direct object of trade is the production and distribution of wealth and the enrichment of those who are engaged in it. This object is not only consistent with the general welfare, but is, in general, promotive of it, because the public welfare, from the point of view of economics, depends upon the greatest possible production and distribution of wealth. The fact that the competitors in trade are governed by selfish motives does not necessitate any qualification of this statement. It is true of trade, as it is of every other competitive struggle, that on the whole and in the long run he succeeds best and best serves his own interests who best serves the interests of his fellowmen. The element of selfishness, therefore, so far from being a detriment, is an advantage and a help. Considered, then, with respect to its effect as an incentive of human activity and as an efficient cause of the enormous increase of our material wealth, competition in trade during the last hundred years has been a potent agency, perhaps the most potent single agency, in the development of our civilization as it exists to-day.

But, while recognizing this, we must not close our eyes to the evils that may be involved in competition. It is a positive evil, in so far as its object *must* be obtained by unfair means. It is a possible evil, in so far as its object *may* be obtained by unfair means, and it of itself induces the use of unfair means for the accomplishment of this object. We all know that persons may compete too intensely, either for their own good or for the general welfare. This

is more likely to be the case where the rewards and prizes to be won are very valuable. Indeed, the intensity of the competition is likely to be proportioned to the value of the rewards and prizes. A man will make greater efforts to attain the presidency than he would to attain the position of a town clerk or sheriff. A captain of industry, lured by the prospect of controlling millions, will work with greater zeal and enthusiasm than a village blacksmith. It is, therefore, natural that in a country like ours, with its great natural resources and its great opportunities for acquiring wealth and power, competition should be of the keenest kind and should lead to abuses. It must be conceded that it is rather a tendency of Americans to do things to excess. We pursue our business, as well as our sports, rather too strenuously. The spiking on the baseball field and the slugging on the football field are an exhibition of this tendency, and they have their counterparts in the unfair competitive methods and tactics used by strenuous traders and strenuous politicians to achieve the objects of their efforts. Among these methods must be included the cutting of prices below the cost of production or even below the limit of a substantial and attractive profit for capital. It seems to be too generally assumed that the chief merit of competition lies in the reduction of prices. The chief merit of competition in my opinion lies in its stimulating effect upon human energy, with the resultant expansion of trade and increase of our material wealth, but it cannot have this effect when competition has been carried to the point of destroying all possibility of profit for capital. The inevitable result of this is restriction of trade and decrease in production—a disaster alike for capital and labor. In these days especially, the importance of the simple truth must be insisted upon that a good living profit for capital is quite as important as a good living wage for labor. Any legislation, therefore, which forbids under penalty of the criminal law every agreement or understanding for the maintenance of a uniform standard of reasonable prices is ill-advised, and, if actually enforced, must tend to the destruction of our national welfare.

Notwithstanding, however, the existence of these evils which are incident to too intense competition—particularly in a country like ours with its vast opportunities—it can be stated with confidence that the law of competition during the past hundred years has, on the whole, worked wonderfully well and promoted the general wel-

fare to a marvelous degree. What the world would have been without its beneficent influence may be learned from a study of the conditions which exist when there is no competition. The negro under the institution of slavery, the inefficient laboring man or political office holder, who relies not upon his own efforts but upon the support of his labor union or his political ring, and the idle inheritor of wealth, relieved from the necessity of the struggle for existence, demonstrate very clearly what competition has done for the world and what the world would have been without it.

Such being the case with respect to the effect of competition in the past, it becomes important to inquire whether conditions have so far changed that it cannot be depended upon to work well during the generation before us. It appears sometimes to be assumed that modern conditions have substantially nullified this law, and that in the years to come we must look to something else to safeguard the interests of the people. If this were really true, the situation would be a grave one. Let us, therefore, see how far this assumption is correct.

It cannot be denied that outside of the domain of the monopolistic trusts actual competition exists and is effective substantially unimpaired and unrestricted as heretofore in all fields of human activity. It exists among small manufacturers and retail distributors. It exists among jobbers and among professional men, lawyers, doctors, teachers, engineers, civil, mechanical and electrical. It exists among manufacturers and distributors conducting the operations of production and distribution upon a large scale, notable examples being the cotton manufacturing industry and the department stores. Indeed, it exists wherever there is more than one person engaged in any business. In the field of telegraphy, for example, there are practically only two great companies—but there is active competition between them. During the twenty-year period 1890-10 the number of persons engaged in manufacturing and in distribution, as recorded by Bradstreet's, increased sixty per cent, from 1,000,000 to 1,600,000—of which a very large proportion have a capital of \$25,000 or less—and during the same period the population increased from 63,000,000 to 92,000,000, or about forty-six per cent. In other words, the number of people engaged in trade increased relatively faster than the population, and that, too, during the period succeeding the passage of the Sherman Anti-Trust Law, during which,

under the fostering stimulus of that law as originally interpreted by the United States Supreme Court, monopolistic trusts appeared to grow and develop faster than ever. But, notwithstanding the growth of the trusts, the small capitalists continued to grow and thrive also. Could there be more convincing evidence than this of the vitality of the individual and of his ability to maintain himself against the power of combination and great capital? Indeed, it would seem that what the small trader and capitalist—at all times and in all countries the special object of care and solicitude on the part of self-constituted tribunes of the people—have to fear rather more than the crushing power of capital is the crushing weight of benevolent legislation.

Again, it cannot be denied that, although for the time being a particular field of industry may seem to be exclusively occupied by a monopolistic trust and there is little actual competition left, potential competition may exist and continue to act as an efficient regulator in the interests of the people. Outside of the domain of the public service corporations, the combinations which have most closely approximated to practical monopolies in this country have been the Anthracite Coal Trust, so-called, by virtue of its ownership of the coal mines, the Standard Oil Company, by virtue of its ownership of the pipe lines, and the United States Steel Corporation, by virtue of its ownership of the iron ore mines and the railroads connected with them. But even all these combinations have been subject to some competition, both actual and potential. Anthracite coal and oil compete with each other and with soft coal, gas and electricity, and there is, in addition, actual competition between the members of the Anthracite Coal Combination themselves and also between the larger operators and the smaller independent producers in all things except as to prices. In the steel trade there are many active competitors with the United States Steel Corporation, and within recent years, the Midvale Steel Company, starting with a small capital investment, has developed into a large and strong corporation.

If, however, there were practically no external competition, actual or potential, there is still unlimited opportunity for competition within the combinations themselves, that is, competition among the officers and employees. Who are at the head of these corporations? Not the favored sons of fortune, of social position and

influence, but for the most part men who have risen from the ranks, men of demonstrated capacity and fitness for the duties and responsibilities which the management of these great enterprises involves. It would seem that never before in the history of the world was there so much chance for merit. This is not to say that the millenium has arrived and that merit now always receives its proper reward. I am speaking only relatively, but if the chances for true merit under modern conditions are relatively better than they used to be, that means progress, and we should be content with that, unless it can be shown that the chances can be still further improved by human laws. The evil in the situation here, as elsewhere, is not that competition has been suppressed or that the door of opportunity is closed, but that for those who enter the competition is rather too severe. Too much seems to be expected and exacted of the managers of capital and often too little consideration is shown in setting aside one man for another deemed more efficient.

When one contemplates a combination of capital so large and powerful as the combinations above referred to, it is perhaps natural to think that in effect they have suppressed, so far as their particular fields are concerned, the law of competition, but, upon closer analysis, this appears to be an error. It is perhaps natural for the human mind to conceive of such a combination as a monster prowling about like a wild beast and devouring everything that comes in its way. But does not this conception involve a serious error? In the first place, it is not really the interest of the monopolist to devour and destroy. It is his interest to develop as large a trade as possible, and this is only possible by serving well the public, both in the quality of his service and in the prices which he charges. An examination of the prices during the period 1896-1910, as published in an article in the *Outlook* on March 12, 1910, revealed the extraordinary circumstance that during that period the prices of crude farm products advanced from fifty to two hundred and fifty per cent, while steel billets advanced only thirty-five per cent, steel rails were unchanged, refined petroleum was only slightly higher, and sugar, steel beams and nails were actually lower. And, in general, it appeared that the prices of commodities supposed to be controlled by the trusts rose relatively much less than prices of the products of the farm. There are wise and unwise captains of industry, but the wise ones, and they are growing wiser and more numerous

every year, know well that he who serves best the people as a whole serves best the enterprise which he represents.

In the second place, these great corporations, although in legal contemplation they are entities separate and distinct from their stockholders, are in effect and in point of substance simply groups of individuals. Their shares of stock are dealt in upon the markets of the world and may be purchased by anyone who has \$100 more or less to invest in them. Within the past twenty years, these industrial stocks have been coming to be regarded more and more as investment securities. High-class industrial preferred stocks now sell upon the same basis as standard railway stocks sold forty or fifty years ago. Within the last four or five years there has been a notable increase in the incorporation of smaller companies and the distribution of the preferred stock of these companies among the smaller investors of the country. It is to be hoped that this process will go on, and it will go on, unless the government by its interference with business breaks down the prosperity of the country. The logical outcome of this process will be a very wide distribution of these stocks, so that a very much larger number of people will be directly interested in the prosperity of these industrial companies. When that outcome has been realized, then these great companies will have the character of great co-operative enterprises, and the attitude of the people towards them will necessarily change. Proof of this is found in the present attitude of large numbers of persons with respect to the policy of the federal administration in the prosecution of the trusts—a policy, by the way, inaugurated by the preceding administration and only logically and consistently carried out by the present one. The stock of the Standard Oil Company and the stock of the American Tobacco Company were never widely distributed. The prosecution of these companies was, therefore, hailed with general enthusiasm throughout the country. On the other hand, the stock of the United States Steel Corporation is very widely distributed. I have talked with many persons, men and women, who think that the Standard Oil Company and the American Tobacco Company deserved all they got, but they cannot quite understand why an attack should be made upon such a benignant institution as the United States Steel Corporation. The explanation is that as soon as you acquire a direct interest in one of these monsters, he very quickly smooths his grim

and wrinkled front and appears as a very kind and gentle sort of animal.

There are other errors which it seems to me deserve attention. In comparing economic conditions, present and past, it may seem that before the advent of the large corporation there were unlimited opportunities for the independent producer or trader which no longer exist for the present generation. As we look back, we can see what immense opportunities there were during the past generation. As we look forward, we may not see similar opportunities, but who will say that they do not exist? There are opportunities in every generation which are only visible to the few. It is only the few in each generation, men of capacity and alertness, who make use of the opportunities which that generation presents. Not many years ago the Union Typewriter Company was by many regarded as a trust or monopoly, and it is quite conceivable that the managers of that enterprise may have been apprehensive of being prosecuted by the federal government under the Sherman Anti-Trust Law. However this may be, to most men it probably seemed impossible to organize another corporation and to make a success of it in this particular line of business. But within the past five years another great corporation, the Underwood Typewriter Company, has been established and is now doing nearly as much business as the Union Typewriter Company itself. Who will say that these two companies are the final developments in their field and that another company may not be organized and achieve a success surpassing either of its predecessors? And note that if the Union Typewriter Company had cut prices, this new competition would never have entered the field. In like manner, if the condition of demoralized prices which existed some years before the formation of the United States Steel Corporation had continued to exist, the Midvale Steel Company, I should suppose, would have been an impossibility. Similarly the maintenance of prices by the Western Union Telegraph Company made possible the competition of the Postal Telegraph Company. And, in general, it may be stated that in order to prevent the suppression of competition and to keep it active and effective it is important to maintain prices at a level sufficiently high to attract new capital into the competitive field.

Finally, it must not be lost sight of that, although some particular field of industry may seem to be exclusively occupied by

monopoly, it does not follow that the door of opportunity has been closed to the ambitious young men of this generation. Since the discovery of the north pole and the south pole, the glory of a Peary and an Amundsen is not attainable by any other person. That particular opportunity is gone forever. Preceding the presidential nominating conventions, the door of another opportunity is open for many an ardent patriot, but after the conventions have registered their decrees, this door is closed—not forever, but for another period of four years. It may be that in the steel trade present opportunities are quite different from those which were open in the days when Carnegie as a young man went to Pittsburgh and that his amazing success in that field may not be achieved by any other person. It may be assumed that in other lines of industry there is practically no chance to build up a new corporation equal to those already dominating the field; but from generation to generation, as existing opportunities are availed of and perhaps cease to exist any longer, other opportunities arise and present themselves, and it can, I think, be stated with confidence that, notwithstanding the growth of monopoly in this country, we have had during the past generation and are likely to have during the coming generation vastly more opportunities than were open to our ancestors of many generations ago who, nevertheless, prospered well and were more content than we are.

Let it not be inferred from anything I have said that I have intended to suggest that the law of competition, beneficent as it has been in the past and as it is likely to be in the future, is all-sufficient as a safeguard to the national welfare. And let it not be inferred that I have intended to suggest that this natural law of competition may not wisely be supplemented by some man-made law to protect and maintain competition against monopolistic power. My object has been simply to call attention to some considerations which ought to be taken into account in diagnosing economic evils and in deciding upon the remedy. To deal wisely with economic problems is always a difficult and delicate task. You cannot deal wisely with them, if you act precipitately. Fortunately, there is no need of precipitate action. There is time for deliberation, for the patient investigation of facts and the patient consideration of them. No more useful service can be rendered by this Academy than to impress upon the public the importance of deliberation, of caution and of conservatism in dealing with these grave problems.